loyal a Republican as can be found anywhere. He certainly had no desire to do anything that would aid the Democratic party. He closed the bank at Coalgate, not because it was insolvent, but because it had violated the law by permitting the president and cashier to use the funds of the bank, in spite of the efforts of the commissioner, who did everything in his power to bring about the replacement of the money and otherwise to secure compliance with the law. Under our laws active officials of a bank can neither directly nor indirectly use its funds, and officers who so use such funds are deemed guilty of larceny. The directors of the bank at Coalgate expressed their gratitude to the bank commissioner for closing the doors of the bank. It was not a matter of the bank's condition, but purely one of violating the law, that caused the commissioner to take such radical steps. I desire to say that this will be done in every instance where the bank refuses to comply with this feature of the law.

Yet again, Mr. Webster says that most people overlook the fact that 85 to 90 per cent. of all bank deposits are created by loans. I am really glad that he made this statement. It will, at least, show the intelligent bankers of America how absolutely ignorant he is of the banking business. Men do not borrow money to keep it on deposit. The records in this office will show that not 25 per cent. of our deposits are created in this way. I believe that I am justified in saying that what is true in Oklahoma in this respect is true in other states.

I am quite sure that you have no desire to do our fair young state and her great business interests an injustice; and I sincerely hope you will give this reply the same publicity that you saw fit to give Mr. Webster's article, which I regard as the most untruthful and slanderous that has ever been penned against our guaranty law and the state of Oklahoma.

A. M. YOUNG
BANK COMMISSIONER
STATE OF OKLAHOMA

EXTRACT FROM THE AMENDED DEPOSITORS' GUARANTY LAW OF OKLAHOMA

ARTICLE II

"SECTION 2.—There is hereby levied an assessment against the capital stock of each and every bank and trust company organized or existing under the laws of this state for the purpose of creating a Depositors'

Guaranty Fund equal to five (5) per centum of its average daily deposits during its continuance in business as a banking corporation. Said assessments shall be payable one-fifth during the first year and one-twentieth during each year thereafter until the total amount of said five (5) per centum assessment shall have been fully paid; provided, however, that the assessments heretofore levied and paid by banking corporations or trust companies now existing shall be deducted from and credited as a payment on said five (5) per centum assessment hereby levied. The average daily deposits of each bank during the preceding year prior to the passage and approval of this act, shall be taken as the basis for computing the amount of the first payment on the levy hereby made. One year after the passage and approval of this act, and annually thereafter, each bank and trust company doing business under the laws of this state, shall report to the Bank Commissioner the amount of its average daily deposits for the preceding year, and if such deposits are in excess of the amount upon which the first or subsequent payment of the levy hereby made is computed, each bank or trust company having such increased deposits shall immediately pay into the Depositors' Guaranty Fund a sum sufficient to pay any deficiency on said first or subsequent payment, as shown by such increased deposits. After the five (5) per centum assessment hereby levied shall have been fully paid up, no additional assessments shall be levied or collected against the capital stock of any such bank or trust company, except emergency assessments hereinafter provided, to pay the depositors of failed banks, and except assessments as may be necessary by reason of increased deposits to maintain such fund at five (5) per centum of the aggregate of all deposits in such banks and trust companies doing business under the laws of this state. Whenever the depositors' guaranty fund shall become impaired or be reduced below said five (5) per centum by reason of payments to depositors of failed banks, the State Banking Board shall have the power, and it shall be their duty, to levy emergency assessments against the capital stock of each bank and trust company doing business in this state sufficient to restore said impairment or reduction below five (5) per centum; but the aggregate of such emergency assessments shall not in any one calendar year exceed two (2) per centum of the average daily deposits of all such banks and trust companies. If the amount realized from such emergency assessments shall be insufficient to pay off the depositors of all failed banks having valid claims against said Depositors' Guaranty Fund, the State Banking Board shall issue and deliver to each depositor having any such unpaid deposit, a certificate of indebtedness for the amount of his unpaid deposit, bearing six (6) per cent. interest. Such certificates shall be consecutively numbered and shall be payable upon the call of the State Banking Board in like manner as state warrants are paid by the State Treasurer in the order of their issue out of the emergency levy thereafter made; and the State Banking Board shall from

year to year levy emergency assessments as hereinbefore provided against the capital stock of all banking corporations and trust companies doing business in this state until all such certificates of indebtedness with the accrued interest thereon shall have been fully paid. As rapidly as the assets of failed banks are liquidated and realized upon by the Bank Commissioner, the same shall be applied first after the payment of the expense of liquidation to the repayment to the Depositors' Guaranty Fund of all money paid out of said fund to the depositors of such failed bank, and shall be applied by the State Banking Board toward refunding any emergency assessment levied by reason of the failure of such liquidated bank. Provided, further, that seventy-five (75) per cent. of the Depositors' Guaranty Fund shall be invested for the benefit of said fund in state warrants or such other securities as state funds are now required to be invested."

II

A REJOINDER

Mr. Young, in the above reply to my recent article, seeks to discredit my fundamental arguments by asserting that certain statements of mine were erroneous, but I fail to see that he has proven his case in a very convincing manner. He has pointed out certain amendments in the Oklahoma law and certain changes in banking conditions in that state that have been made since the time I wrote my article; but these very changes show clearly the truth and force of my criticism of the original law and the conditions arising under its operation. I am pleased to note that the scales are beginning to fall from the eyes of the arch-defenders of this law, to such an extent that even they are obliged to admit its defects and the dangerous tendencies set in motion by its crude and radical provisions, by proceeding so promptly to amend it. Indeed, it is to be hoped that the amending process will soon proceed much farther, until the original law will scarcely be recognized in its changed form.

I regret exceedingly that the pressure of other work, and the temporary inaccessibility of the data used in preparing my first article, render it impossible for me to make my rejoinder as convincing as it might otherwise be; but, at the invitation of the editors, I will consider very briefly the points raised by Mr. Young. So far as I can see, most of the apparent discrepancies between my statements and his arise from their difference in date, and none of them alter materially the force of my criticism of the original law.

I have read a copy of the law as now amended and find that Mr. Young's first and third statements are substantially correct. The

greatly increased assessment provided in the amended law is a practical admission of the correctness of one of my contentions, viz., that the guaranty fund provided at first was utterly inadequate to serve the intended purpose. I am pleased to note this prompt recognition of the necessity of a much larger fund, but I still doubt whether even this fund, consisting as it confessedly does of only 25 per cent. cash, will prove permanently effective. In times of great and general financial stringency it will probably be very difficult to realize on the securities in which the remaining 75 per cent. of the fund is to be invested.

As far as Mr. Young's second statement is concerned, I am pleased to note that the Oklahoma legislature has so promptly attempted to stop the iniquitous misrepresentations that were being made by unscrupulous bankers concerning the nature of the guaranty of bank deposits. This amendment only emphasizes the correctness of my original statement concerning the misleading representations that were being made by bankers to secure deposits.

Mr. Young's attempt to controvert my statement that the Oklahoma law tends to promote "wild-cat banking" seems to me extremely superficial. He says that on February 5 the state banks held 49.3 per cent. reserve as compared with 36.8 per cent. for the nationals. This proves absolutely nothing concerning the relative soundness of the two kinds of banks. Both percentages are far above the legal requirements, and these abnormally large reserves seem to indicate temporary stagnation in financial business in the case of both kinds of banks, rather than greater relative soundness of the state banks. Every good banker knows that the quality of the loan is a much more important factor in determining financial solvency than any large excess or reserve over the legal requirements.

Mr. Young says that "the state bankers almost without exception are complying strictly with the ruling of this department" in regard to the rate of interest paid on deposits. He does not specifically deny, however, the charge made in my recent article that this ruling is being evaded by bankers *personally* paying the difference betwen the legal rate and the higher rates actually paid. I can only repeat that I have the written statements of several prominent and reliable persons in Oklahoma that this ruling of the Banking Board was quite generally evaded by state bankers in the manner described. I will also say that my statement that unscru-

pulous, dishonest, and inexperienced men have been granted bank charters by the state authorities was based upon letters received from various prominent and reliable men well acquainted with the conditions in Oklahoma. Anyone sufficiently interested can easily ascertain whether I had a valid basis for my assertions by writing to almost any prominent and reliable person in Oklahoma, who is not directly interested in upholding the new banking law. Of course this is a vital point, on which there would naturally be a great divergence between the statements of the friends and opponents of the law.

What Mr. Young says concerning the closing of the International Bank at Coalgate does not detract "one jot nor one tittle" from my main assertion, viz., that this episode was loudly heralded throughout the country as an example of the beneficence and efficiency of the Oklahoma law in averting the usual bad effects of bank failures, whereas, as Mr. Young himself says, the bank was really solvent. It would be utterly futile to attempt to deny that the Colgate fiasco was so heralded. and was used for political purposes during the late presidential campaign—everyone knows this. Whether or not the bank was actually closed with these ends deliberately in view, is another question concerning which the gods disagree. Mr. Smock did not want to close the bank; many circumstances connected with the affair seem to indicate that he was practically forced to do so. In spite of Mr. Young's denial, there are many who still believe that the bank was closed for political effect.

Mr. Young is evidently seeking in vain for a climax to his caustic criticism of my recent article, when he says that my statement that 85 to 90 per cent. of all bank deposits are created by loans shows "the intelligent bankers of America how absolutely ignorant" I am "of the banking business." This is really amusing. I will simply retort that I am quite willing to risk the doom of being consigned to the oblivion of ignorance by the above assertion. I was simply repeating a generally recognized truism when I called attention to this percentage of credit transactions in the banking business today. I am sure that every intelligent banker, at least outside the state of Oklahoma, will recognize that I did not exaggerate in this statement.

In conclusion I will say that I can readily understand how my recent article may have aroused the wrath of the arch-defenders

of the new Oklahoma law. Indeed it would have been very strange if some champion had not risen in his might and sought to discredit my fundamental arguments in some such manner as that used by Mr. Young. I think, however, that my indictment will still stand clear in the minds of all persons interested in sound banking principles, until my fundamental arguments are offset by much more convincing criticism than that voiced in the above reply by the Bank Commissioner of Oklahoma.

W. C. WEBSTER

THE UNIVERSITY OF NEBRASKA

WASHINGTON NOTES

THE TARIFF BILL IN THE SENATE
SENATOR ALDRICH'S MAJORITY
ABANDONMENT OF COST OF PRODUCTION
THE PHILIPPINE TARIFF
THE TREASURY AND THE REVENUE

The completion of the tariff bill by the Senate in committee of the whole, about the middle of June, and the lack of developments in the course of the discussion show how completely the leaders in the upper chamber had, before the measure was reported, perfected their plans for carrying it through. During the discussion of the bill in committee of the whole—the really crucial period in its history, while in the Senate—such changes as were permitted proved to have been of the slightest. No amendment has been specifically forced upon the controlling clique, the leaders having had throughout a substantial majority on their side. In practically every instance where the Finance Committee, headed by Senator Aldrich, had determined to secure the passage of a given clause or a rate, it has been able to control at least forty votes. The opposition, on the other hand, has seldom been able to show more than thirty votes, although occasionally two or three more have been registered. Other members of the Senate have been either paired or absent. Nominal changes from the draft of the bill as reported by the Senate Finance Committee have however been numerous. These changes may be grouped in three classes: (1) modifications intended to cut down duties shown to be excessively exorbitant, while still leaving the rate prohibitive or highly protective; (2) alterations intended to change the wording of some clauses in such a way as to adjust them to court decisions, rulings of appraisers, and changes